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MORTGAGE BANKING

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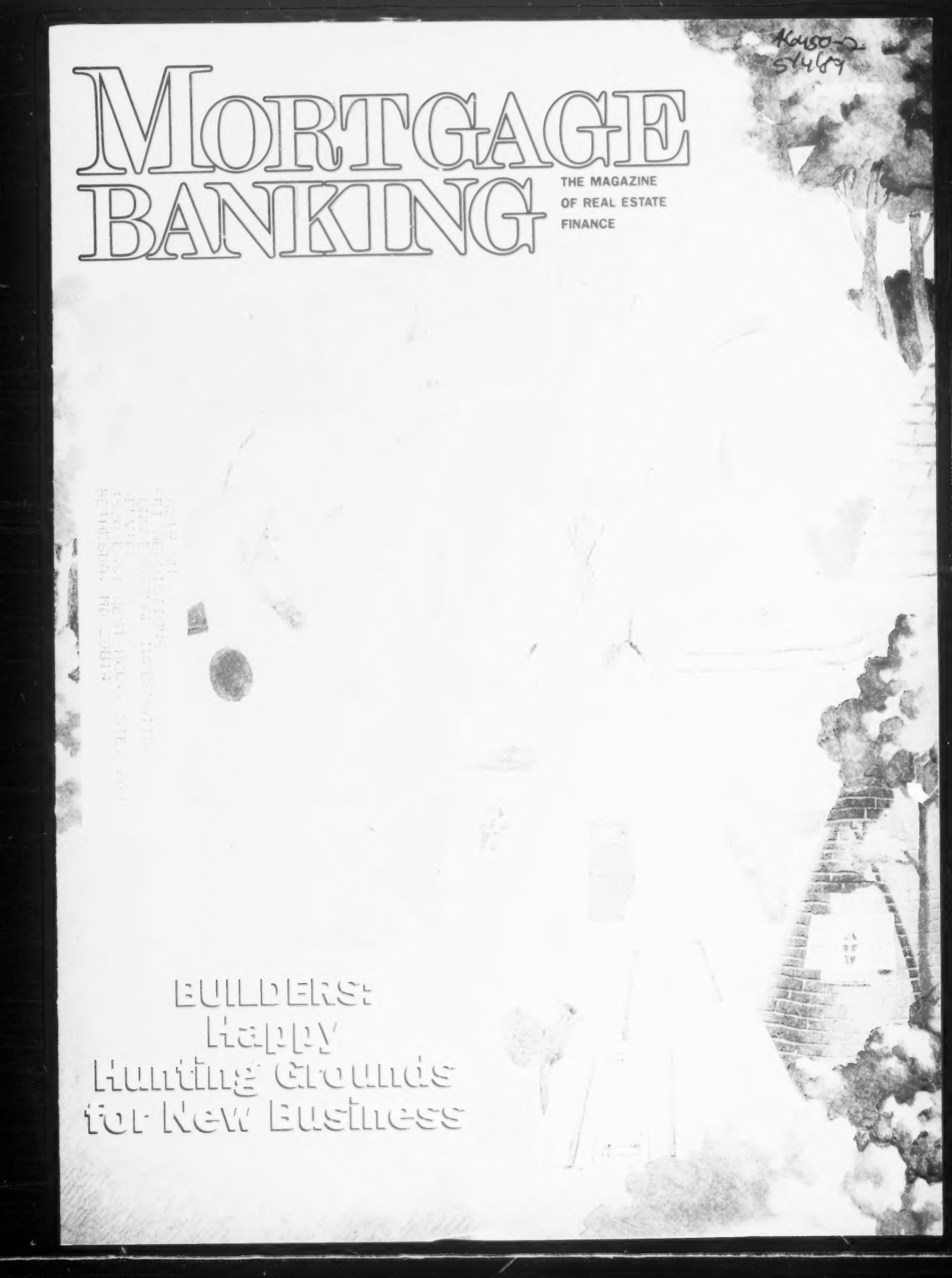

BUILDERS: Happy Hunting Grounds for New Business

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MAY 1989 VOLUME 49 NUMBER 8

COVER: Single-Family Housing

Out of the uncertainties involved in the S&L crisis, there are a few absolutes. The days of predatory pricing are just about over and there will be a new, more level playing field. Home builders don't want to be caught without funding options and mortgage bankers are high on the option list. As one home builder says, it's a world of opportunities.

12 Home Builders Seek New, Savvy Lender Partners *As this spring selling seasons begins, home builders are already looking forward to next year's offerings with a major question on their minds. Who will be their lending source?* By JOE C. DAWSON

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COVER ILLUSTRATION BY ANNIE LUNSFORD

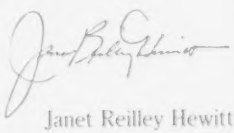
The S&L Fallout

The S&L crisis is surrounded by so many uncertainties that even experts who follow the developments daily have a hard time fully coping with the potential meaning of today's events. Every day, the media delivers new reports that suggest the resolution of the crisis may profoundly reshape the way mortgage bankers do business.

In reporting what these experts are saying, we face two understandable constraints. For one, there are occasions when an authority wishes to "go off the record" to discuss a delicate matter. Secondly, sources dip into more colorful vocabulary to describe their feelings about the crisis, and that of course must be edited out.

We do our best to ensure that our readers don't lose the substance covered in these exchanges. For instance, in this month's cover story on how home builders are seeking alternate sources of funding in the wake of thrift closings, we didn't quote the vernacular. But, if we did our job well, the sense of frustration and anxiety that many builders conveyed should be apparent. Similarly, without naming names, the message should be communicated that a few builders do not have much respect for the political process. Out of all this, our readers should gain this important insight: home builders want to talk business with mortgage bankers. But, if mortgage bankers want the business, they need to understand a builder's needs and be able to speak their language.

Other important articles in this issue on single-family lending should not be overlooked. Customer relations emerge as paramount in both the niche marketing articles featuring two innovative lenders, and in the essay by John J. Sousa, president of Commonwealth Mortgage Company of Wellesley Hills, Massachusetts. Joseph Garrett of the Hamilton Savings Bank in San Francisco discusses the evolution and future of mortgage banking, and MBA's Linda McKenna looks at the debate surrounding legislation that would liberalize FHA terms.



Janet Reilley Hewitt
Editor

COMING IN JUNE

Mortgage Banking's Bread and Butter

Servicing—a mortgage banker's bread and butter—will be served up for discussion in June. How to spot default risks tied to your correspondents and how to hedge servicing value to guard against balance sheet hits, are just two of the topics we will dig our teeth into in the next issue.

MORTGAGE BANKING
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VOLUME 49 NUMBER 8

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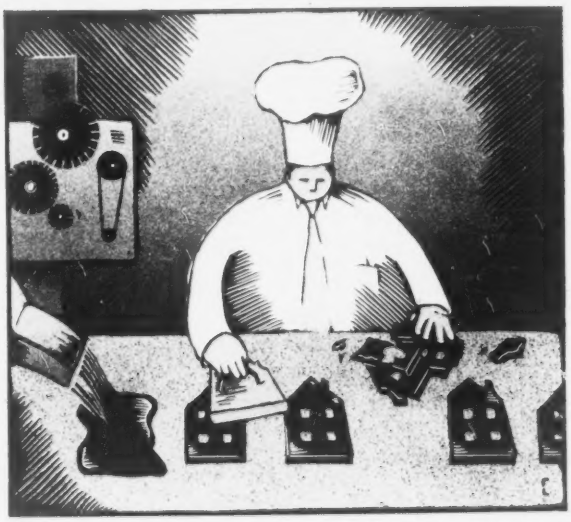
The proposed National Affordable Housing Act, while not a panacea, is a step in the right direction for first-time homebuyers.

THE DEBATE OVER FHA LIBERALIZATION



The visibility of homelessness today has put housing at the forefront of national issues. Ironically, if it were not for the dire circumstances faced by this unfortunate sector of the population, the unmet housing needs of many other Americans would not have reached the level of public awareness it has today. The housing problem affects all types of housing, from the availability of temporary shelter to homeownership; and it touches a broad segment of our society, hitting those of low- and moderate- income the hardest.

Homeownership is what most Americans ultimately strive for. Until 1980, the number of people attaining this goal had been on the rise. But in the 1970s and early 1980s, rapid house price appreciation, rising real interest rates, and a lag in household income growth reversed the trend. From 1980 to 1987, homeownership declined from 65.6 percent to 64 percent for the nation, most notably among those aged 25 to 34—the prime first-time homebuyer group—according to the "State of the Nation's Housing 1988" by the Joint Center for Housing Studies at Harvard.

A program that has had a far-reaching impact on facilitating homeownership affordability for more than 50 years is the Federal Housing Administration insurance program. More commonly known as the FHA, the program has made it possible for more than 15 million Americans to become homeowners.

Since 1934, the FHA has served the mortgage financing needs of homebuyers, many of them first-time buyers, who could otherwise not afford to purchase a home. It has done this through a combination of lower down payment requirements, allowing the insurance premium and closing costs to be included in the financing, a longer amortization period, and slightly more liberal underwriting standards, while maintaining an actuarily sound program.

Now, however, the FHA is encountering difficulties in carrying out its objective. Speaking before the Senate Banking Committee's Subcommittee on Housing and Urban Affairs in September 1988, MBA president Willard Gourley discussed the problem.

"The maximum mortgage ceiling is intended to target FHA activity to moderate-income homebuyers. However, it is important that it have generally equitable applicability for the entire country," Gourley said. "While the indexing concept introduced in 1979 is supportable and helpful, the maximum cap of $101,250 has served to reduce the availability of FHA insurance in high-cost areas, of which there are a growing number," he added.

As a result of this cap, many first-time buyers are essentially shut out of the FHA program, and thus homeownership. (713 areas, including 7 entire states, are listed by HUD as high-cost, of which one-third allow loans up to the $101,250 ceiling.)

Currently, homeownership affordability is one of the issues before

ILLUSTRATION BY RANDY LYBECK

Linda McKenna

Congress, which this year is proposing various solutions to make FHA more accessible to homebuyers in high-cost areas. Several bills have been introduced that would enable FHA insurance benefits to reach more borrowers. Provisions include raising loan limits, lowering or eliminating the down payment requirement, and allowing more flexibility in insuring ARMs.

The National Affordable Housing Act, submitted to Congress by Senators Alan Cranston (CA-D) and Alfonse D'Amato (NY-R), would set the maximum mortgage amount at 95 percent of median sales price for all areas, with no ceiling, among other provisions.

Though the MBA generally supports these innovations to the FHA program, detractors of the FHA think that the proposal to allow higher mortgage amounts will only serve to benefit upper-income Americans.

So says a recent article in *Savings Institutions*. The benefit would go to upper-income homebuyers it asserts, because they—not first-time buyers—purchase homes at prices in the range of the proposed higher loan limits. It calls for targeting the FHA program to first-time, low- and moderate-income buyers.

Patric Hendershott, professor at Ohio State University, also believes loan limits should not be raised as currently proposed. "The fact that some areas have higher real incomes, or someone buys a higher quality home, doesn't mean they should be getting a bigger part of the subsidy," he told the audience at MBA's annual housing policy institute last year.

Admittedly, allowing loan limits to be as high as 95 percent of area median house price may not solve the affordability problem, but it will at least ensure greater access to the program by first-time homebuyers in all areas of the country.

Hendershott argues that because higher incomes and demand for greater amenities are skewing house prices, these factors must be accounted for in determining FHA loan limits. His solution: base limits on the regional price of a "constant quality house"—a price index prepared by the Census Bureau that measures changes in the average sales price of new single-family houses that are the same with respect to 10 physical characteristics as houses sold in 1982.

But homebuyers are not necessarily exercising preferences for larger houses with more amenities, nor do they necessarily have higher incomes or greater purchasing power. Rather, the house price reflects the particular conditions in that market, including crucial elements Hendershott fails to mention: impact fees, government regulations, labor costs and supply of housing.

MBA research illustrates how, in major metropolitan areas, the median-priced home is, in fact, well beyond the means of those with the median household income (the measure of homeownership affordability): In 1970 the U.S. median household income was $8,734 while the median-priced existing home cost $23,000. With mortgage interest rates at 9 percent, the income needed to qualify to purchase that home was 92 percent of the median household income.

By 1987, homebuyers needed 125 percent of the median household income to qualify at the prevailing 10 percent interest rate. And the situation was even more severe in metropolitan areas such as Los Angeles where an income of 188 percent of the median income was required (see chart).

CHART 1

Homeownership Affordability

Metropolitan Area	1987 Median Household Income	1987 Median Resale Price	Qualifying Income at 10%*	Percent of Median Income	Qualifying Income at 12%*	Percent of Median Income	10% Down	Percent of Median Income
Anaheim/Santa Ana	$35,413	$167,300	$63,400	179%	$74,342	210%	$16,730	47%
Boston	$35,010	$177,200	$67,178	192	$78,741	225	$17,720	51
Chicago	$28,328	$ 90,800	$34,423	122	$40,348	142	$ 9,080	32
Dallas	$31,256	$ 89,200	$33,817	108	$39,637	127	$ 8,920	29
Denver	$28,949	$ 88,900	$33,703	107	$39,504	136	$ 8,890	31
Los Angeles/Long Beach	$29,724	$147,700	$55,995	188	$65,632	221	$14,770	50
Miami/Hialeah	$21,112	$ 81,100	$30,746	146	$36,038	171	$ 8,110	38
New York/Northern New Jersey/ Long Island	$22,834	$183,500	$69,567	305	$81,540	357	$18,350	80
Philadelphia	$28,550	$ 97,000	$36,774	129	$43,103	151	$ 9,700	34
San Diego	$30,582	$129,200	$48,981	160	$57,411	188	$12,920	42
San Francisco Bay	$35,480	$171,300	$64,942	183	$76,119	215	$17,130	48
Washington, D.C.	$44,941	$114,200	$43,294	96	$50,746	113	$11,420	25
U.S.	$25,986	$ 85,600	$32,452	125	$38,037	146	$ 8,560	33

Sources: U.S. Department of Commerce, Bureau of the Census
National Association of Realtors

*Assumes a 10 percent down payment with 25 percent of gross income devoted to principal and interest payments; does not include taxes and insurance.

Though Hendershott's proposal seemingly would provide a means to set loan limits that more accurately reflect regional variations in house price, while retaining the program's objective of serving those who could not otherwise afford a home, there are problems inherent with the index.

Index problems

The first problem with the index is that price comparisons are between years not regions and for new homes only.

Second, prices are reported for the four Census regions only. (To provide this information at the metropolitan level would require significant expansion of the sample size, and the Bureau currently does not have the resources to do this.)

Third, the 10 characteristics account for only 66 percent of the variation in sales prices and so exclude such features as neighborhood quality or location. For example, a new starter home purchased with an FHA loan in a high-cost area five years ago is sold at a price far above the current FHA cap. Though it's the same quality house, the owner can sell it for a higher price because improvements in the environs have increased its value.

And finally, those very factors that Hendershott is trying to correct for are incorporated in the index because it is broader in coverage than a cost index, thus reflecting the demand and supply factors that affect sales price.

The role FHA should play has always been highly debated, and the proposed innovations have heightened that discussion.

Though the debate continues, Cranston and D'Amato have, after a year of intensive review based on input from housing organizations, including the MBA, and a National Housing Task Force, made up their minds on the issue. Whether the provision will survive intact remains to be seen.

Admittedly, allowing loan limits to be as high as 95 percent of area median house price may not solve the affordability problem, but it will at least ensure greater access to the program by first-time homebuyers in all areas of the country. And that, in MBA's view, is a step in the right direction. **MB**

Linda McKenna is a researcher at MBA.

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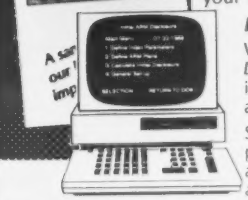

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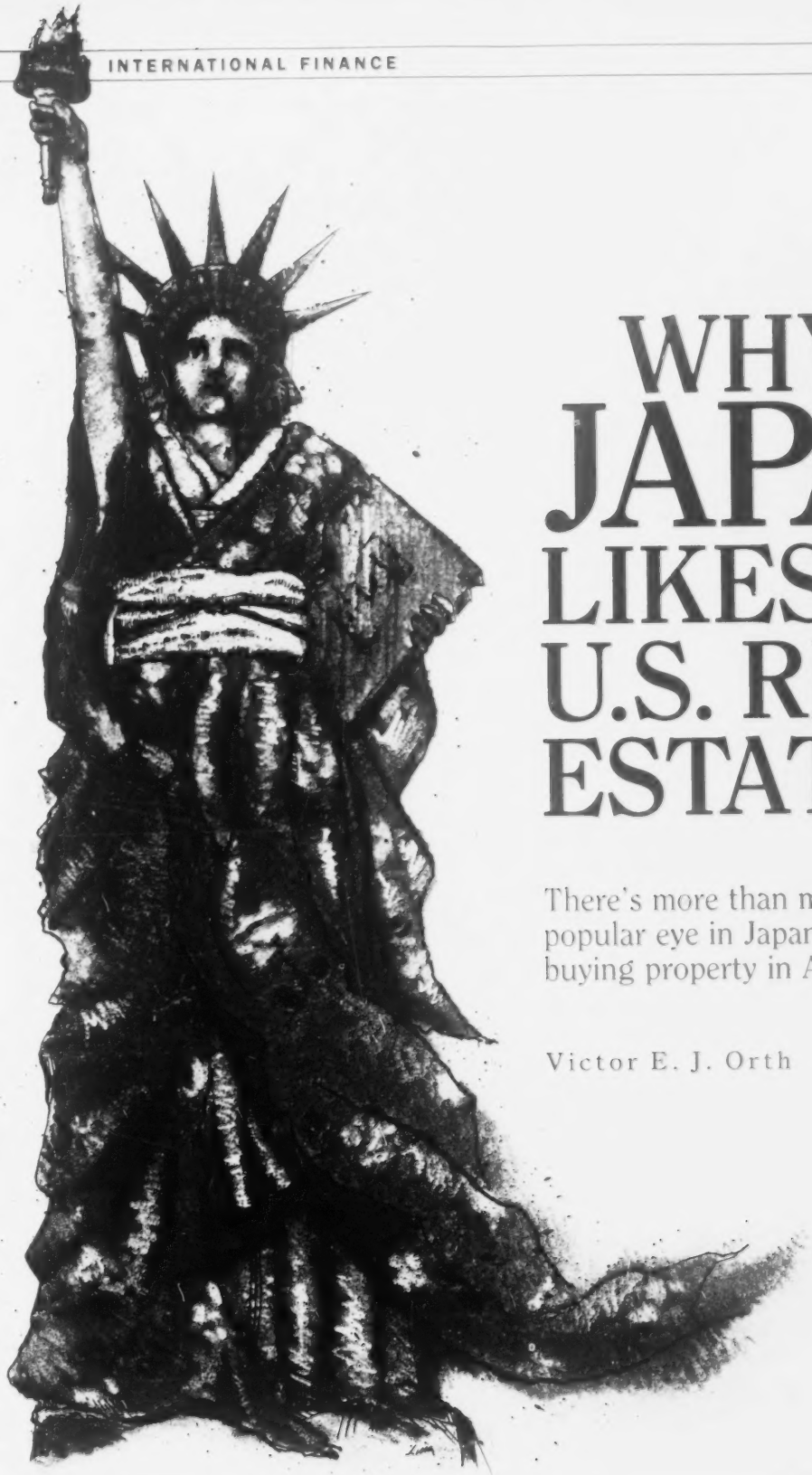

ILLUSTRATION BY LINA CHESAK

WHY JAPAN LIKES U.S. REAL ESTATE

There's more than meets the popular eye in Japan's interest in buying property in America.

Victor E. J. Orth

From the days when the continent was virgin forest, investors have been buying U.S. real estate. But over the last few years, foreign investment in U.S real estate has increased significantly. Reasons given for this increase have ranged from favorable tax structuring to perceived economic stability, and from favorable interest rates to perceived yield potential in real terms. Each company invests for reasons unique to its particular criteria for creating a favorable foreign investment.

Foreign investor-countries such as France, West Germany and Japan have invested in the United States in spite of faster rates of economic growth in their own countries. To better understand this, we must take note of the perspective, foreign business has of the United States. This perspective stems from a world of tumultuous change, political uncertainty and economic oscillation. But foreign business views the United States as a country encompassing a landscape of economic stability, political calm, and an abundant well-trained labor force with relative peace in labor/management relations. Finally, the United States has a national marketplace large enough to allow significant risk diversification.

Both direct and indirect foreign investments have increased over the last 10 years. A strong U.S. dollar and high interest rates were the primary culprits raising the cost of U.S. assets and sending foreign direct investment scurrying elsewhere.

However, due to the U.S. dollar's temporary depreciation experienced against the Japanese yen, a significant upswing in Japanese investment in the U.S. occurred. Even though U.S. property was becoming more and more expensive due to the gradual strengthening of the U.S. dollar against most foreign currencies; U.S. property was considered to be a bargain by foreign land value standards. For example, land values in Tokyo, Japan more than doubled in 1986, resulting in prime C.B.D. (central business district) land values of as much as $29,000 per square foot. Stratospheric prices such as this brought about bottom barrel yields of 1 to 2 percent on newly acquired buildings. Consequently, the Japanese real estate market was brought to a near standstill. Thus, the shining star of U.S. real estate started looking brighter and brighter to foreign investors.

Although not as large as the United Kingdom or the Dutch in total dollars invested, the Japanese have managed to capture third place with a whopping $13.2 billion in total U.S. real estate holdings. Understandably, U.S. curiosity has peaked at the sudden volume of Japanese purchases and the financial strength with which they have penetrated the U.S. market.

A recent study indicated that Japan was one of six countries responsible for approximately 90 percent of the foreign investment in U.S. real estate from 1980 to 1984. The other countries were Canada, Germany, the Netherlands, the Netherlands Antilles and the United Kingdom. Of these investors, the Japanese have captured our national business limelight. Japan's high business visibility in the U.S. is predominantly in the form of numerous articles written on various aspects of their investment activities.

Articles written about Japanese investment have included historical perspectives, Japanese investment strategies, and past, present and future income flow analysis. Numerous, step-by-step, cookbook-style articles, intending to provide readers with insight and understanding on courting Japanese investors, have been published. Not to mention the armchair psychology which has attempted to provide the psycho-analysis for our preoccupation with the Japanese investor.

In the interest of summarizing rather than expanding the field of Japanese real estate investment articles, this article will not take any of the aforementioned specialized perspectives. Rather, it will attempt to take an overview perspective of the entire U.S. Japanese real estate investment phenomenon. This will take into account past reasoning, present effects and future strategies which make up the character of this "new-found" economic force. In addition we will attempt to quantify various aspects of the Japanese value perspective as it relates to U.S. real estate investment.

In the beginning

In the beginning, God created the Earth and Man. Then Man created "real estate," and then the Japanese bought it. In the minds of many U.S. real estate investors the foregoing statement would not be too far off target. In 1985, Japanese investment in U.S. real estate narrowly reached the $1 billion mark. In 1986, however, that figure shot up to nearly $4 billion. At the end of 1987, the figure is estimated to have reached well over $6 billion, with a projected $9 to $10 billion right on its heels in 1988.

One of several reasons for this sudden surge of Japanese investment in recent years stems from a 1981 decision by the Japanese Ministry of Finance or (M.O.F.) to allow insurance companies to buy foreign real estate. The target group (not the decision itself) was the significant factor. This is evidenced by the M.O.F.'s decision to allow certain Japanese companies and private individuals to invest in foreign real estate back in the 1970s. The primary difference is the enormous finan-

cial strength of the insurance companies versus the individual company or private investor.

The M.O.F. is now investigating the possibility of allowing the giant Japanese pension funds to invest in U.S. property. That single act could release more than $180 billion in combined assets, with the U.S. as the primary target.

Another reason for the increase is more in the nature of a market-driven force. As alluded to before, this increase has been the interest rate levels in the U.S. and abroad. Because interest rates are higher in the U.S. than in Japan (and many other investor countries), the Japanese investor will obtain a relatively low interest loan in the mother country and then invest the funds in U.S. properties with leveraged yields. Thus, even a low yield from U.S. property will result in a higher return to the Japanese investor than if the funds were invested in the home country. This is because Japanese real estate equity investment yields are no more than 1 or 2 percentage points over the market interest rates charged. Similarly, funds borrowed in the U.S. would diminish the attractiveness of the U.S. real estate investment due to the higher interest rate charged on the loan and the resultant lower equity yield. The low-rate loan enables the Japanese investor to accept a lower yield from their U.S. investment than their U.S. counterpart could. Or, the Japanese can afford to pay more for the real estate than their U.S. counterparts due to the additional funds made accessible with this favorable financing.

The ability to pay more for an investment, also comes from the close relationship Japanese investor companies have had with the Japanese banks. Close historic ties have enabled the Japanese developers to commit to transactions for property they like almost on the spot. This time-saving, side-step is a cost-cutting measure that gives the Japanese developer the jump on its U.S. competitors when prime investment grade property comes on the market. And with the 8 to 9 percent mortgage rates available to them from their lead Japanese banks, they leave their American borrowing competitor—who borrows at a more conventional rate of 10 or 10.5 percent—far behind in terms of their borrowing options. The difference between a positive and negative cash flow on a building yielding a return of say, 7 percent, can be made on that slim difference in borrowing costs.

IN THE BEGINNING, GOD CREATED THE EARTH AND MAN. THEN MAN CREATED "REAL ESTATE," AND THEN THE JAPANESE BOUGHT IT.

One advantage relative to the Japanese strong cash flow tolerance (i.e., purchase bargaining position) that the American developers have is their experience with the typical American tenant. Unlike the Japanese tenants, who are forced to yield to landlord demands of several years rent in advance, the American tenants just balk at such demands when put to them by their Japanese landlords and simply leave, if necessary.

Location invasion

Similar to a military operation, the Japanese investors have been very location specific in their choice of cities. The large SMSAs (Standard Metropolitan Statistical Area), such as Los Angeles and New York, are slated as primary targets. In downtown Los Angeles, for example, almost one third of the buildings are owned by Japanese companies.

According to a recent Cushman Realty Corp. study, 6,513,756 square feet, or roughly 29 percent of the total downtown L.A. office space, is owned by Japanese corporations. The most notable Japanese-owned Los Angeles property is the Arco Plaza towers which sold for $620 million—cash. New York, the second major target of the Japanese, has relinquished ownership of a number of notable properties. Among these are the Tiffany & Co.'s Fifth Avenue building, (that sold for $945 per square foot, a record for U.S. retail space) the headquarters of ABC, Citicorp, Exxon and the famous Algonquin Hotel. Smaller SMSAs such as

TABLE 1

Foreign Direct Investment Position in the United States 1980-1985

All Dollars in Millions

	1980	1981	1982	1983	1984	1985
All Countries	$6,120	$8,889	$11,397	$13,946	$17,761	$18,557
Canada	1,158	1,770	1,882	2,106	2,844	2,580
Europe	2,254	3,675	5,035	6,638	8,255	8,821
European Communities (10)	2,119	3,450	4,651	6,224	7,714	8,238
Belgium	4	9	11	10	10	9
France	24	24	24	28	66	26
Germany	493	651	780	815	966	1,049
Italy	4	4	5	3	0	*
Luxembourg	23	28	29	25	0	24
Netherlands	999	1,507	1,742	2,189	2,471	2,325
United Kingdom	569	1,220	2,051	3,140	4,135	4,623
Denmark, Greece, and Ireland	2	7	11	12	42	*
Other Europe	135	225	384	414	541	583
Sweden	0	0	0	0	0	0
Switzerland	80	150	300	324	393	444
Other	56	75	84	90	148	139
Japan	264	302	394	457	744	1,054

* Unavailable

Source: Survey of Current Business, Oct. 1984, at 37–38, June 1985, at 32, Aug. 1985, at 52; U.S. Department of Commerce, News, June 25, 1986, at 6.

Washington D.C. and Boston are considered next. This has placed Washington D.C. in third place for the number of major office buildings owned by Japanese investors.

The Cushman study also indicated that the Japanese have a 36 percent investment in Hawaii, a 29 percent investment in California overall and a 23 percent investment on the East Coast, that includes approximately 6 percent in the Atlanta area.

Although well known for investing primarily in blue chip office buildings and developments, the ever increasing experience and sophistication of the Japanese investor company has now brought second-tier property and secondary market areas into view. This has included retail developments, apartments, certain industrial properties, and speculative property as well. Forays have been made into Chicago, Philadelphia, Indianapolis, Detroit and even Dallas.

This Japanese barge into blue chip property and now into second-tier property has displaced the domestic institutional investor. With the majority of prime first-tier property priced out of reasonable reach, and the slow but continuous encroachment into the second-tier market, the domestic investor has turned elsewhere. New investment strategies highlight retail and industrial properties, condominium development and apartment complexes. This, in turn, has had a positive effect on the values of suburban office parks. These high- risk suburban ventures with previously volatile value ranges, have stabilized. In addition, investment quality industrial property and retail developments have risen in value.

There may be tensions over trade issues between the U.S. and Japan, but joint ventures amongst American and Japanese investor companies have increased. More and more partnerships are being forged to establish real estate syndications. Japanese companies prefer alliances with U.S. firms for the obvious reason of familiarity. Zoning laws, building codes, labor relations and cultural nuances are handled more efficiently by the domestic end of the team.

Japanese insurance companies, for instance, are well known for their cautious stance on investment in real estate. This is due to the currency risk they have that requires them to pay out claims in yen. As a result of this risk averse position, they tend to link up with experienced U.S. developers and insurers.

FUTURE TRENDS FOR JAPANESE INVESTMENT IN U.S. REAL ESTATE CAN BE SUMMARIZED IN THE NUTSHELL TERM "DIVERSIFICATION."

American firms report that the Japanese, in turn, make excellent joint-venture partners. Not only do they materialize the developers dream of a deep pocket partner, but they are also patient, in for the long haul, and do not expect to reap an immediate fortune from their investment. Basically, they bring stability to the U.S. developers.

Japanese construction firms are also teaming up with U.S. partners. In 1982 U.S. developers using Japanese construction firms did $114 million in construction work. In 1986, that figure jumped to nearly $2 billion. Japanese construction firms, like Japanese developers, also have close ties to Japanese banks, allowing them to obtain low interest loans that American contractors cannot match.

Unfortunately, "all that glitters is not gold," and all U.S./Japanese partnerships do not necessarily work out. Western partners unfamiliar with the Japanese business culture many times assume that the ultimate goals of the partnership are the same for both parties. Due to the extremely competitive nature of the Japanese market, however, a Japanese partner eventually expects to become the dominant force in the partnership. Japanese firms which have attained foreign partnership privilege, have successfully overcome intense competition in their own country, and thus always expect to end up on top in the foreign arena as well.

When the Japanese partner structures its joint venture relationship as a "kogaisha" or child-company, the Japanese executives involved are on what could be termed a "sponge" mission. They are instructed to gather as much information, and obtain as much American know-how as possible, and then bring it back to the parent company for implementation. Thus, goals expressed or implied by the liaison managers are subservient to those of the mother company. All of this, of course, is usually not clear to the inexperienced American partner.

Because divestitures and acquisitions are almost nonexistent in Japan, the Japanese executive expends no energy or time trying to cope with the contingency. Instead, all energies are directed toward product perfection and ultimately toward market domination. Therefore, a clear understanding of the Japanese business culture and the ultimate goals of the Japanese partner are essential to developing a joint-venture entity which can stand on its own.

Contrary to what many Americans believe, the Japanese investor companies referred to thus far do not act as one homogeneous entity. They are as diverse as their American counterparts. If you study their corporate constraints and investment criteria, however, it is possible to place them into at least five investor group categories. These are: large insurance companies, developers, construction companies, real estate sales companies and individual investors. Within these five groups are identifiable segments of direct and indirect investors.

Direct investors have offices of their own in the United States or invest funds under their own name. Direct investors include trust banks, contractors, insurance companies and corporations. Indirect investors are those which invest funds for another party. Indirect investors include commercial banking concerns, real estate brokers and trust banks.

The largest of the five major groups are the insurance companies with more than $326 billion in combined assets. As mentioned previously, the insurance companies are super conservative, and in spite of their huge asset base have less than 1.5 percent of their investment portfolio in U.S. real estate. The insurance companies consider U.S. real estate as a partial hedge against inflation for their dollar-oriented paper securities. They also look for a 2 to 3 percent margin on their real estate investments above the U.S. Treasury bond yield.

The next Japanese investor group is the real estate developers. This extremely active group has managed to acquire more than 40 percent of all U.S. real estate purchased by the Japanese thus far. This materialized in part due to the financing advantages the developers have with their banks, as explained earlier. However, an even better advantage is their ability and willingness to venture into the construction end of the business. This is a "venture" only to the extent that the construction project is taking place in the U.S., assembling sites and erecting buildings are close to their entrepreneurial hearts.

The construction companies as a group are well known for their work where they have built condominium projects and resort hotels. They are now attempting to enter the market of the U.S. mainland. Because they also have strong ties with Japanese banks, U.S. developers are taking a closer look at the possible benefits such a give-and-take relationship might have. By lining up letters of credit, the Japanese construction companies circumvent the need to use their own cash until the development is complete. At this time the project cash flow or sale reversion is used to repay the construction loan, a simple yet enticing procedure that American construction companies strive for, yet rarely obtain.

Real estate sales companies are on the smaller end of the scale of investor companies. Similar to a firm like Coldwell Banker or Century 21, they deal primarily in residential investments and small-scale commercial properties. These companies perform an advisory function for their clients as well as play the role of intermediary. Due to the increased level of interest their clients have exhibited for purchasing U.S. real estate, some of the larger firms have listed U.S. properties in their portfolios. Because the companies in this investor group are smaller than the companies in the other investor groups, there is generally less red tape to wade through when an investment decision needs to be made. Thus, the element of speed becomes the primary advantage that the smaller firms hold over the large trading companies.

Finally, we come to the most diversified investor group identified—the individual investor. This group consists of high net worth individuals and successful midsize closely held businesses. Using the experience of the large corporations as trailblazers, the individual investor then follows on a relatively safe and explored path. Notably, Japanese tax law practically wipes out individual assets in excess of $3.6 million with inheritance taxes, so droves of wealthy individuals are investing in U.S. real estate.

The investor groups are segmented into direct and indirect investors. A

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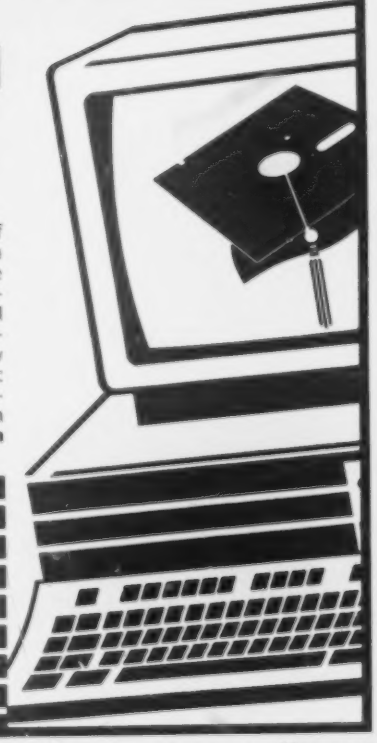

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brief description of direct investors is as follows:

- Trust banks can invest in the U.S. as they see fit, when acting as pension fund managers. They are involved in partial joint ventures, but prefer 100 percent equity investments.
- Contractors are also involved in 100 percent equity investments and partial equity deals. They make direct development investments by linking up with American developers on a joint-venture basis. Their effect on the market stems from initiating new developments.
- Insurance companies, like trust banks, are primarily involved in acquisitions with 100 percent equity positions. They are also involved in convertible mortgages. Japan has 23 life insurance companies; six or seven of these have real estate offices in the United States.
- Corporations are generally not well known in the United States due to their poor representation. Corporations have a broader investment perspective, but also prefer the 100 percent equity acquisitions. They deal in user-occupant clients and a few wealthy individuals.

There is often a fine line between direct and indirect investors. Several companies play both roles, depending on thier client needs and the government restrictions imposed for a particular type of activity. Indirect investors are as follows:

- Trust banks are one of the switch hitters playing both roles as required. Licensed by Japanese law as brokers, banks are the only major financial institutions so designated. They play a major role in equity investments by acquiring properties in the name of their clients.
- Commercial banks are limited by Japanese law concerning foreign real estate investment. They are not allowed to act in an advisory capacity nor collect referral fees. Their main market impact, then, involves structuring debt/equity deals for other investors.
- Real estate brokers have only a minor role as representatives for Japanese clients. Few have the authority for direct investment, and indirect investment comes in the form of commissions secured through developers.

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investment group, direct investors or indirect investors, all contribute to the aggregate cash infusion that is stabilizing the American commercial real estate market. Interestingly enough the total Japanese investment in U.S. real estate amounts to little more than one-half of 1 percent of the total $2.3 trillion value of all U.S. real property. Continued investment, favoring modification of Japanese law regarding foreign investments, will undoubtedly bolster all or most of the investor groups. Japan's large and affluent population will continue to demand more and more investment alternatives. Because Japanese investment in U.S. real estate is meant for the long haul, commitment to U.S. markets is relatively certain.

Regulations

One of the most attractive aspects of investing in U.S. real estate for foreign investors is the lack of restrictive regulations. Most U.S. laws concerning foreign real estate investments are directed toward disclosure rather than ownership constraints. By contrast, European and Japanese land use and property ownership laws are very limiting.

Three federal regulations govern the majority of reporting requirements for foreign owners of U.S. real estate. These are: *The Agricultural Foreign Investment Disclosure Act of 1978* (AFIDA), which requires all foreign owners to register all holdings in agricultural land. *The Foreign Investment in Real Property Tax Act* (FIRPTA), that requires purchasers of foreign-owned property to withhold 10 percent of the sale price to be turned over to the Internal Revenue Service. And finally, *The International Investment Survey Act of 1976* (IISA), that requires a disclosure to the U.S. Department of Commerce by each U.S. enterprise having a direct or indirect interest of more than 10 percent held in the company by a foreign person or investor.

In view of these relatively light U.S. regulatory laws and the rather restrictive land ownership and investment laws of other countries, the U.S. real estate market fares well for future foreign direct and indirect investment.

According to a recent Landauer Associates, Inc. report, Japanese institutional investors expressed concern about the future stability of the U.S.

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dollar. The Japanse investors also anticipate higher U.S. interest rates (that is presently materializing). The smaller Japanese investor groups, however, believe that the yen will stabilize and U.S. interest rates will fall to more acceptable levels in the very near future. With the increase in institutional uneasiness about the U.S. economy, diversification into real estate debt instruments and real estate investment in other countries may begin to rise.

A few years ago, Japanese investors were interested in only prime office buildings in select seaboard cities. Today office buildings are still the preferred investment target but no longer the exclusive target. Nor are the seaboard cities enjoying the monopoly they once had with Japanese money. Present investment trends are pointing to an even more diverse pattern of property types chosen for investment. Japanese airlines, developers and construction companies already in the hotel development sector are branching out into multifamily residential properties, resorts and even a few shopping centers.

Although greater familiarity with the U.S. real estate market has contributed to the expansion of Japanese money into second-tier markets, the simple law of supply and demand provides the greatest inputs. Top quality properties in preferred cities are limited. Competition for the best investment grade properties has increased and money supply pressures have increased. Investment into the 37 second-tier U.S. metropolitan areas will steadily increase with Chicago and Atlanta leading the way.

Convertible and participating mortgages will likely increase in popularity with U.S. developers as interest rates rise. This will then provide an expanded vehicle for investment into U.S. real estate by the large Japanese insurance companies. Banks and trust companies would also benefit from an increase in U.S. interest rates because they plan to substantially increase the pace of construction. However, construction companies themselves may be lured away from the American construction scene by the new government policies at home.

A Japanese government report adopted in 1987 recommends a significant investment in new Japanese infra-

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structure. This would include large public works programs such as dams, railways, roads and other major public projects. The Maekawa Commission Report also recommends programs for new and improved public housing projects and large-scale multifamily developments. The result of this could be a less aggressive marketing effort for new developments in the United States by the large Japanese construction companies. This in turn would draw away a great deal of capital previously slated for investment in the U.S.

Fortunately for the American real estate industry, the Japanese have been very successful in obtaining loan guarantees and permanent loans on office buildings and other large-scale projects. Due to their lower cost of funds and higher yield potential from U.S. developments, leaving the U.S. market entirely will not be on the top of their list.

Future trends for Japanese investment in U.S. real estate can be summarized in the nutshell term "diversification." All the investor groups will be scrutinizing investment opportunities on a much broader scale. Elements of location and property type will be linked to partnership structuring criteria, debt/equity participation and an accelerated pace of debt financing.

An interesting factor to consider, however, is the eventual tightening of the existing investment grade real estate market. In the midst of all the Japanese buying hoopla comes the possible doom of the resale market. The effective holding period for property owned by Japanese investors is not really known. What is known, however, is that Japanese corporations do not sell their property very easily. That is, a Japanese company that sells its interest in a major property holding may be perceived by the Japanese business community as having failed. This is unfathomable for most Japanese, so corporations almost never sell their buildings, in spite of significant potential profit. Therefore, new developments and acceptable second-tier properties may be the wave of the American real estate investor's future. **MB**

Victor Orth is a project manager specializing in complex real estate and tangible personal property appraisals.

The question of whether data processing costs should be distributed among various user groups is critical for both the data profession and the lending industry.

Data Processing Costs

Ruth H. Bullard, Diane B. Walz, Roger Bomely and Dennis M. Bline

The "experts" in management information systems say that distributing data processing costs is an excellent way to allocate scarce resources. Most of the available literature gives the impression that charge-back systems are already in use in most companies. We wanted to conduct a study of the savings and loans industry and see whether the management in this currently troubled industry are actually using charge-back systems.

Data processing (DP) departments have traditionally been accepted as necessary parts of organizations. Now, however, the issue of whether or not to distribute these costs across the various user groups is critical in both the data processing profession and in the business community.

Historically, the first DP functions were located within the accounting department. With increased usage of the DP function, a new department evolved.

We can define distributed data processing costs in terms of two steps. The first step is the estimation of the value of the services performed by the DP department for a user department. The second step is the actual transferring of these costs to that department.

In 1982 Olson & Ives described the reasons for wanting to allocate DP charges. These include allocating and regulating the demand for scarce resources, recovering costs (as an accounting policy), meeting legal/contractual requirements, providing data for planning, and the formal passing of the control of information system (IS) resources to users. Sommer later contended that a charge-back system encourages the experimentation and use of new technologies, and provides valuable information about resource utilization for planning and budgeting purposes.

Nolan claimed that "the initial effect of the charge-out system in communicating economic costs is negative in the sense of 'constraining' the use of computer-based systems." Cash points out that unallocated costs are viewed as an essentially free resource to the users, stimulating user requests and creating a climate conducive to encouraging experimentation. Charge-back procedures can also motivate both users and information technology facility managers to develop systems that meet real needs as Linder pointed out last year.

When information technology users are accountable through a charging system, their demands for services become more realistic, and the organization saves money on information costs (Linder, 1988). Accountable users employ resources more judiciously. Linder also contends that services that are expensive are easily misused. When services are free, or are treated as overhead, their use tends to increase to the maximum. When users are accountable, they make value judgments.

Cash also contends that often "the charge-out system for IS (DP) operations costs is based on a very complex formula." He contends that this leads to a situation where "the allocated cost center introduces a series of complexities and frictions."

Another argument often posed against the use of a charge-back system is related to the appropriateness of establishing an inside service department as a profit center. In some organizations, the DP department is allowed to charge out to end users more expense than they incur. This can happen, for example, when a standard cost system is used for charge-back and there are operating efficiencies that occur within the data processing department.

Depending on the method used to distribute the DP costs, even further benefits can accrue to the organization as a whole. In 1988 Bridges noted the need for the DP department to come to the aid of the newest crop of computer users. She suggests that, "The time has come for PC users to become more self-sufficient, and it's up to the information center (DP) staff to help them do it."

In addition to providing more support for the users, the DP department is responsible for the security and integrity of corporate data. Management is aware of the PCs' natural shortfalls in this area. This brings up the question of how to deal with DP's charge to maintain data security and still satisfy the user's needs. The problem for management information sys-

tems (MIS) (DP) is one of control according to Herschel in 1987. Inefficiencies are more visible and can be corrected. Handling DP costs by a charge-back system provides management comparative information, that can be used to monitor and control PC usage.

The charging system establishes a way for managers to influence user behavior, for example separate rate structures for different service conditions. By placing a high price on one resource relative to another, discounts or varied billing rates for prime-shift versus non-prime-shift processing, demand is altered (Linder, 1988).

The last and perhaps the most important reason for establishing a charge-out system is to give management a tool for quality decision making. "If you're not measuring it, then you can't manage it." In order to determine whether an MIS function belongs under central control, users must know what the costs are. "Only then do they have a basis for comparing alternatives," said Bergstrom.

A charge-back system should promote the efficient and cost-effective use of information services by an organization (Emery, 1986). An organization with an information technology charging system makes more informed decisions and exercises better management control (Linder, 1988).

Ground rules

The literature provides ground rules to follow in planning a distributed costing system. Many of the objections and negative attitudes toward a charge-back system can be eliminated by following one simple rule. It must be well designed and thought out by management prior to activating it. The successful charge-back system must have a clear set of objectives with demonstrated top management support (Bridges, 1988).

Charge-out systems should be perceived as being fair and reasonable on all sides (Cash, 1983). This would require that a system monitoring effectiveness begin at the same time as the charge-back system.

If the users work together with the DP department in developing the charge-back system, it can help avoid problems of fairness and can help make the system easier to understand. Charge-back systems can be too complex and unrealistic; as such they can drive a wedge between IS management and the user base. To avoid these problems, base the systems on an agreed upon standard cost/unit advised Cash in 1983. IS managers must define management objectives and bill users for output, such as for reports or transactions rather than for technically-oriented work units, such as CPU time or disk access (Bridges, 1988). An even better design is achieved by basing the charges upon items that are understandable to the users, such as so much per paycheck processed, or so much per order line (Sommer, 1988).

The accounting treatment for variances must also be considered. An IS operation charge-out system should separate IS efficiency-related issues from user utilization. After analysis, variances should be closed directly to corporate overhead. The real test of a charging system is whether it increases efficiency and effectiveness enough to justify the cost of administering it (Sommer, 1988).

There appears to be consensus that, in measuring and monitoring DP expenses from the user's perspective, the DP department must be a profit center rather than a cost or expense center.

There are perhaps as many different approaches to distributing data processing costs as there are corporate goals and individual personalities. One conclusion that can be drawn from all of the negative comments from end users against charge-back systems is that not all charge-back systems are equal or even equally effective. Perry (1988) provides perhaps the latest list of "musts" for instituting a charge-back system, embodied within the following steps:

- Develop a DP department budget.
- Decide which resources will be measured and costed.
- Estimate maximum and anticipated use levels for each resource.
- Decompose budget and allocate to cost pools.
- Calculate resource use rates.
- Select unit costing or resource method as basis for charging.
- Develop unit rates for applications using unit costing.

Many favor the approach put forth by Cash in 1983 to keep IS as an unallocated cost center but inform users through memos of what their development and operation charges would have been if a charge-out system was in place. Others say it is only a first step toward a "real" charge-back system. Bergstrom (1987) applauds memo billing because it is often a necessary first step toward measuring resources.

Once the decision to treat the DP department as a transfer cost (or cost-based) center has been made, then all that remains is to determine the basis for transferring costs. One such method is the cost-based method, which divides the projected MIS costs that are to be recovered by the projected resource usage to yield a unit price per resource.

There appears to be consensus that, in measuring and monitoring DP expenses from the user's perspective, the DP department must be a profit center rather than a cost or expense center. Advocates of this approach note that it puts the inside service on the same basis as outside and brings the pressures of the marketplace to bear. Consequently, it puts pressures on the IS function to hold costs down by stressing efficiency and to market itself more aggressively inside the company. To be a truly strategic resource, IS should be run as a business within a business, as a profit center with a flexible budget and a systematic way to price the services (Allen, 1987).

Market-based pricing has as its key concept the fact that MIS must be a low-cost producer/provider of affordable computing services—otherwise users should be free to buy elsewhere. It adopts an entrepreneurial stance, with rates that are competitive with the marketplace (Bergstrom, 1988).

This approach takes more commitment on the part of management. Market-based pricing mandates that computer facilities be not only competitive in price but also full service—in other words, run as a business enterprise, responsive to the requirements of the users and to the business priorities of the greater corporation

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(Bergstrom, op cit). A refinement of the "full service" approach would fit better with smaller companies that are unable to afford the costs associated with such a large venture.

Under the "split-level" approach suggested by Linder, users are charged direct or full cost, depending on management's policies. The IS department is allocated revenue on a standard cost of services delivered, plus a standard fixed markup. Then the difference between the revenue of the IS department and the cost figure charged to users is closed to a corporate overhead account.

Regardless, if the market-based system or the split-level system is used, there are incentives for the DP department to improve the quality and quantity of their services, and management can get a better grasp on system usage.

There appears to be general agreement that DP departments should distribute their costs. Further, the literature surveyed seems to imply that DP costing systems are being used extensively.

To investigate the extent to which DP costing systems were being used, a questionnaire was developed for a detailed survey of distribution practices. For ease of comparison, the survey focused on one industry: United States Savings and Loans and the questionnaire was mailed to the 100 largest S&Ls in the United States.

The S&L industry was selected because it consists of regulated financial institutions that are currently experiencing economic setbacks. We think it is highly important to find out if this particular industry is using DP charge-back systems.

The premise of this article is that most S&Ls are not distributing DP costs. Also, we believe that the S&Ls that are distributing DP costs will be encountering substantial resistance from the user departments. While we agree that distributing DP costs is beneficial, we disagree with the inference that DP costing systems are being used extensively. We base these assumptions on our personal knowledge of the S&L industry and of charge-back systems in general.

In addition to the survey questions that dealt with an actual cost distribution system, the first five questions were used to help determine how much support the organization provided for its users. Question six determined the size of the data processing operation from a dollar standpoint, while seven through ten, determined if the surveyed companies did distribute data processing costs and the method used.

The survey was mailed with a cover letter and a stamped self-addressed envelope. As an inducement to responding to the survey, a summary was offered to participants if they would return an extra address label with their reply. One hundred surveys were mailed, one returned for an incorrect address and thirty-four responses were received. Seventy-one percent of the respondees requested a summary of the survey.

Survey results

The responses to the survey questions are presented in Tables 1, 2 and 3. The annual DP department budgets among the responding firms ranged from $300,000 to $25 million with an average of $7.2 million.

As expected most of the responding companies do utilize mainframe and microcomputers. Less than half use a service bureau/time-share type of system. Table 1 illustrates this.

A relatively small percentage of companies are currently using charge-back systems for DP costs. More than 71 percent never allocate DP costs. (See Table 2.)

However, it is surprising, and not in accordance with expectations, to learn that user resistance is actually a small percentage of the reasons offered for not allocating. One of the reasons mentioned, the system's inability to capture the information, was very surprising, especially because this response was given by companies averaging $7.2 million in annual DP costs.

Table 3 shows the methods used to allocate costs and again, the results are as expected; there are many methods used to allocate the costs. There apparently is no one method perceived as "the best." The system must be designed to meet the goals and needs of management in a particular company.

Based on the no responses, Table 4 shows that the lack of objections were from companies that used negotiated prices and/or actual costs incurred.

This information will provide important guidance to DP managers in distributing DP costs in the future.

Many different management styles and many different goals must be satisfied in order to make any charge-back system workable. Nolan (1977) concluded that the effectiveness of any charge-back system stemmed from the educational level of the users and the degree of sophistication of the DP department.

The results of the questionnaire were as expected, except in respect to the lack of resistance from the end user. That is, 71 percent of the companies are not allocating DP costs. The primary reasons for not allocating

TABLE 1

Type of Equipment Ownership by Category

Type of Equipment	Response	Number	Percentage
Mainframe computers	yes	30	88%
Minicomputers	yes	29	85%
PCs	yes	34	100%
Local Area Networks	yes	29	85%
Service Bureau/Time Share	yes	15	44%

TABLE 2

Data on Distribution of DP Costs

Number of Departments allocating DP costs to end users:

Response	Number	Percent
Always	10	29%
Sometimes	13	38%
Never	11	33%

Reasons for "never" distributing DP costs included:

- Corporate policy (4)
- Users' inability to forecast (1)
- User resistance (1)
- System's inability to capture information (3)
- Getting ready to move to charge-back system (2)

TABLE 3

Methods Used to Allocate Costs

	Number	Percentage
Percent of hardware usage	10	29
Negotiated price	6	18
Actual costs incurred	15	44
Amount of time used	12	35
Fixed budgeted amount	6	18
Other	2	6

TABLE 4

End User Responses

Yes	11	32
Too new to know	2	6
No	10	29
	Number	Percentage
Charges not understood	11	32
Amounts not consistent	2	6
Amounts not fair	3	9

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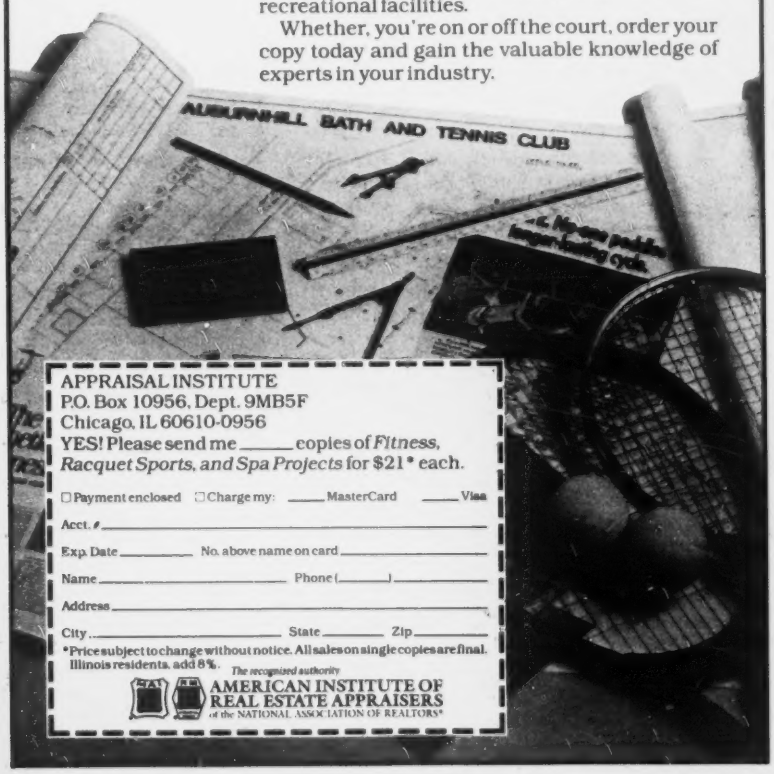

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were corporate policy and the system's inability to capture information.

Certain factors must be considered in the design of any charge-back system. This is especially true given the current level of technology, where mainframes co-exist with desktop PCs, and where LANs are becoming commonplace.

Our recommendation is that the user should be exposed to a bidding process for needed services. This is basically the market price approach already explained. In this situation the DP department, and any outside service departments that the user may wish to invite to bid, submit a formal bid for the work to be performed. The bid is to be considered a firm, fixed, price quote.

This bid should be for whatever portion(s) of the total project the DP department wants to perform. The user will then take all the bids and select the one with the best price/performance ratio. If the vendor selected is an outside vendor, then a report should go back to the DP department indicating the price of the accepted bid. If the price is greater than the DP department bid then a reason for the selection needs to be given. The bidding procedure should enable the DP department to improve in those areas that need improvement.

If the user department wants to have access to the information that is available on the LAN, the departmental computer system, or the mainframe, they should be charged according to the rates established by the department managing that computer system. Again, this should involve the bidding process.

One of the problems that may arise is that the user department may select a computer system that is incompatible with the other system they would like to communicate with. That should be the option of the user who will ultimately bear the cost burden of that decision.

If management is looking at the departmental financial statements then the extra costs associated with DP expenses will be available. When information technology users are accountable through a charging system, their demands for services become more realistic. Thus, accountable users employ resources more judiciously. Any computer system beyond

a desktop PC requires some DP staff for day-to-day needs. A mainframe needs operators and usually programmers. A LAN needs a supervisor who will set up new users, backup the data, and perform other necessary tasks. A departmental minicomputer will need someone to operate it.

Because these systems have fixed overhead expenses in the form of staffing and maintenance, when a user decides that they want to be connected to that resource, they must incur a portion of that overhead expense. Once again, it will help the user to decide whether what they hope to gain will be worth the price that they must pay. This connection cost will of necessity include not only the one-time "hook-up" costs for any necessary hardware and data processing personnel time, but will also include some portion of the DP departmental costs.

There must be a balance. When users do not think that what the DP department has to offer is worth what they are being charged, then they won't "buy" it from the DP department. On the other hand, if the user does not "purchase" the services of the DP department, then all of the costs will be retained rather than being distributed to the users. The balance must be established so that those who use the information pay a fair price. If it is not worth what the DP department is charging, then management should be concerned that DP costs are too high.

If the variance is favorable in the DP department's financial budgets, then the users and the company are getting more than their money's worth. If the variance is unfavorable, then the data processing department is costing more than what it should.

In the S&L industry distribution of DP costs would help management to better manage and allocate scarce resources. **MB**

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VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

1988	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
NOV	10.43%	10.54%	8.76%	7.35%	8.91%	10.18%	8.16%	10.27%
DEC	10.72	10.53	8.78	7.40	9.39	10.55	8.40	10.61
JAN 1989	10.75	10.60	8.80	7.52	9.48	10.59	8.55	10.73
FEB	10.79	10.80	9.07	NA	9.64	10.65	8.65	10.65
MAR	**NA**	**10.84**	**9.26**	**NA**	**10.07**	**11.09**	**9.09**	**11.03**

SELECTED SECURITIES

1988	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	U.S. GOVERNMENT 6-Month	1-Year	3-Year	10-Year	A-Rated Utility
NOV	8.35%	8.66%	7.86%	8.48%	8.72%	8.96%	10.12%
DEC	8.76	9.11	8.22	8.99	9.11	9.11	10.08
JAN 1989	9.12	9.04	8.36	9.05	9.20	9.09	10.09
FEB	9.36	9.37	8.55	9.25	9.32	9.17	10.25
MAR	**9.85**	**9.95**	**8.85**	**9.57**	**9.61**	**9.36**	**10.37**

CURRENT SECONDARY MARKET YIELDS

1988	GNMA[3]	FNMA[3]	FHLMC[3]
DEC	10.26%	10.24%	10.22%
JAN 1989	10.34	10.30	10.30
FEB	10.37	10.33	10.33
MAR	**10.63**	**10.58**	**10.57**

SPREADS
(Basis Points)

	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
	115	113	111
	125	121	121
	120	116	116
	127	**122**	**121**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

1988	FNMA Portfolio Commitments	FNMA Portfolio Purchases	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Commitments To Sell	FHLMC Commitments To Buy	FHLMC Mortgages Purchased	FHLMC Mortgages Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
NOV	$1,289	$1,596	$174,278	$5,405	$3,759	$7,156	$4,109	$4,231	$6,380	$3,886
DEC	1,350	1,726	178,250	5,434	5,888	10,101	5,842	5,511	3,719	4,856
JAN 1989	1,087	1,037	180,822	4,074	3,492	5,206	3,586	3,408	4,830	4,584
FEB	**3,557**	**905**	**184,209**	**4,811**	**6,360**	**8,411**	**5,088**	**4,900**	**2,000**	**3,990**
1988 TOTAL	23,435	23,110	---	54,878	41,271	70,669	44,075	39,777	58,579	56,532
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
2 MONTH AVG.[4] 1989	2,322	971	---	4,443	3,180	4,206	2,544	2,450	3,415	4,287
1988	2,385	1,948	---	2,436	1,983	4,389	2,731	2,123	2,673	3,745
1987	930	1,162	---	5,527	8,129	7,997	7,956	8,030	12,800	9,986

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1988	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
NOV	1,567	1,206	361	1,516	1,129	387	219	275	613	460	205	245	573	493
DEC	1,577	1,206	371	1,566	1,162	404	201	343	609	424	207	357	566	436
1989 JAN	1,690	1,269	421	1,507	1,140	367	296	321	635	438	227	293	573	414
FEB	**1,498**	**1,108**	**390**	**1,404**	**1,079**	**325**	**229**	**277**	**592**	**400**	**209**	**302**	**523**	**370**
1988 TOTAL	1,488	1,140	348	1,463	1,083	380	235	274	575	404	234	269	548	413
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	634	420	272	282	575	406
2 MONTH AVG. (SAAR) 1989	1,594	1,189	406	1,456	1,110	346	263	299	614	419	218	298	548	392
1988	1,451	1,113	338	1,339	1,033	306	315	240	527	370	261	246	487	345
1987	1,814	1,346	468	1,690	1,250	441	305	401	639	470	300	368	580	443

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1988	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
NOV	3,710	2,600	8.5	650	364	6.9
DEC	3,920	2,160	6.5	674	366	6.7
1989 JAN	3,550	2,400	8.1	691	369	6.5
FEB	**3,440**	**2,570**	**9.0**	**626**	**374**	**7.5**
1988 TOTAL	3,594	---	---	676	---	---
1987 TOTAL	3,526	---	---	671	---	---
2 MONTH AVG. (SAAR) 1989	3,495	---	---	659	---	---
1988	3,210	---	---	616	---	---
1987	3,615	---	---	729	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

Total[5]	1–Unit	2+ Units	Nonresidential
$286.2	$106.3	$19.0	$77.2
288.6	107.5	18.9	78.4
293.5	108.0	19.7	81.4
292.8	**107.8**	**20.8**	**81.0**
281.8	103.5	19.3	77.9
283.0	100.7	22.4	78.2
293.2	107.9	20.3	81.2
278.3	102.5	20.5	76.4
282.3	98.8	25.2	76.4

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
1988	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
SEP	$36,328	$8,690	$18,176	$8,737	$342	$3,405	$259	$1,933	$550	$351	$10,585	$117	$1,938	$6,263	$2,131
OCT	30,578	6,273	16,053	7,586	332	2,707	327	1,559	344	247	15,669	84	2,037	10,501	2,936
NOV	28,138	5,430	14,704	7,314	352	3,406	600	1,605	659	271	11,252	23	1,496	6,546	3,090
DEC	**32,004**	**6,459**	**16,502**	**8,356**	**314**	**4,507**	**404**	**2,450**	**874**	**449**	**20,183**	**224**	**2,389**	**11,859**	**5,607**
1988 TOTAL	374,401	85,307	186,237	95,474	3,190	37,876	4,526	20,379	6,988	3,553	175,754	1,032	22,953	119,942	29,714
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
12 MONTH AVG.															
1988	31,200	7,109	15,520	7,956	266	3,156	377	1,461	582	296	14,646	86	1,913	9,995	2,476
1987	37,462	9,174	17,338	10,379	267	3,748	201	1,874	692	296	14,054	239	2,134	9,208	2,347
1986	37,921	10,969	17,265	9,051	318	4,156	598	1,897	598	310	12,281	340	2,276	6,994	2,492

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
1988	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
NOV	126	69	17	40	92	$7,007	41	$2,536	18	$1,334	33	$3,137
DEC	116	58	18	40	106	7,852	57	3,502	18	1,368	31	2,982
1989 JAN	106	59	16	31	121	8,656	76	4,629	17	1,240	28	2,787
FEB	**114**	**68**	**15**	**31**	**93**	**6,815**	**56**	**3,509**	**16**	**1,221**	**21**	**2,085**
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
2 MONTH AVG.												
1989	110	64	16	31	108	7,737	66	4,069	17	1,231	25	2,436
1988	125	71	16	38	111	7,758	65	3,902	18	1,323	28	2,533
1987	226	136	41	49	173	11,908	94	5,737	41	2,985	38	3,186

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]Average covers one month less for FHLMC.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.